



KENTUCKY PUBLIC EMPLOYEES' DEFERRED COMPENSATION AUTHORITY

Newsletter

JANUARY 2003

Join us on the "WEB" at: www.kentuckydcp.com or
<http://personnel.ky.gov/dcomp.htm>
 or email us at: persdeferredcomp@mail.state.ky.us
 Telephone number: (502) 573-7925 or
 (800) 542-2667
 Fax number: (502) 573-4494
 Nationwide® Retirement Solutions (NRS)
 Web-Site Help Center: (800) 653-4632
 Our address:
 105 Sea Hero Road, Suite 1
 Frankfort, Kentucky 40601-8862

Retiring in '03? Plan Now!

If you are looking at the retirement date of July 1, 2003, or sooner, you should contact your local Deferred Comp Rep, or the Frankfort office during the next few weeks.

If you are considering retiring any time during 2003, please read this article very thoroughly.

Each year hundreds of teachers, state and county/city government employees retire. Most of them will be paid, often thousands of dollars, for accumulated leave: Annual, Comp, or Sick, as their employer provides. Because these are large, lump-sum payments the tax rate is often well over 40% (Ouch!)

By deferring much of this payment for leave (we cannot take it all) you can shelter thousands of dollars from state and federal income taxes, while avoiding major negative tax implications for the 2003 tax year.

Often, we need a little extra time (about 60-90 days) to do all the calculations and paperwork necessary, so that you can make this important deferral. If you are looking at the retirement date of July 1, 2003, or sooner, you should contact your local Deferred Comp Rep, or the Frankfort office during the next few weeks. Don't wait too long. Once the check for your accumulated leave has been cut... it is too late.

Maximum Deferrals for 2003

	Under Age 50	Age 50 and Over ²
457	\$12,000	\$14,000
401(k)	\$12,000	\$14,000
Combination ¹	\$24,000	\$28,000

"Still No Minimum Deferral"

¹Participation in a 403(b) Plan may restrict your overall limit with Kentucky Deferred Comp. Call us for details.

²Higher limits apply to individuals attaining age 50 at any time during the calendar year.

NEW FOR 2003

IRA PROGRAM

*Traditional And Roth IRA's
Coming Soon From
Kentucky Deferred
Compensation*

Call The Authority for
an IRA Brochure.

Fixed Contract Fund Rate

A blended net crediting rate that will yield 4.45% will be credited for the First Quarter of 2003.
 The rate was 4.70% for the previous quarter.

Valuable Pieces of INFORMATION

Board Actions Taken On November 20, 2002

Watch List Update

Added: Fidelity Magellan Fund, Janus Worldwide Fund, and INVESCO Telecommunications Fund (Investor Class)

Retained: Dreyfus Premier Third Century Fund (Class A), INVESCO Small Company Growth Fund (Investor Class) and Munder NetNet Fund (Class A)

In general terms, placement of a fund on the Watch List indicates that fund has underperformed its peer group on both a three year and one year basis. For additional information on any fund offered through the Authority, please contact the Nationwide Retirement Solutions Marketing Unit at 800.542.2667, in Frankfort: 573.7925.

Audit Report Update

The Board also voted to accept the annual audit from Cotton and Allen, the independent firm of Certified Public Accountants and Consultants who audited the Authority's Plans. As is previous years, the Audit was a "clean" one, reporting no instances of non-compliance or material weaknesses.

What Do The New RMD Payout Rules Mean to You?

On April 17, 2002, the Internal Revenue Service issued final regulations on Required Minimum Distributions (RMDs) from supplemental retirement plans. These payouts are for participants who are at least 70 1/2 and are no longer employed.

Because Americans are living longer, the IRS included revised life expectancy tables used to calculate RMDs in its final regulations. The amount of RMD participants receive may be less under the new tables than under earlier versions of the tables.

Kentucky Deferred Compensation and Nationwide Retirement Solutions expect to fully implement the new tables in January 2003.

If you receive an installment payment that is equal to your RMD you may notice a decrease in your payments. The new amount reflects adjustments allowed by the final regulations on RMDs.

Put Your Tax Refund to Work for Your Retirement

At this time of year, it's tempting to splurge on yourself and use your IRS refund to pay for the expenses you incur. This year, consider instead splurging for your retirement by investing your refund in your deferred compensation account.

It's easy to do, and you may well appreciate the money a great deal more when you retire.

As soon as you know how much you can expect as a refund from the Internal Revenue Service, divide that number by the amount of pays you have left this year. Then, ask Kentucky Deferred Comp to increase your deferrals by that amount.

For example, if your tax refund totals \$800 and you have 20 paydays left, your deferral increase amount would be another \$40 per pay.

Using your tax refund is just one way you may be able to increase your deferrals. Your Participant Service Representative may be able to offer you more ideas. Why not contact them today?

Did You Know?

Hundreds of people join Deferred Comp, then never change either the amount of their deferral or their investment option(s).

Changes occur in all our lives with the passage of years: our family needs and responsibilities change, our income levels usually rise, and there are fewer years remaining until retirement. Yet, several of you reading this article are

still deferring the small "starter" amount you began with five, ten, fifteen years ago, or longer. You probably intended to increase your deferral amount, and diversify your investment portfolio, when you received your next increment, or paid off your auto loan, or got "Junior" out of college.

Yet...something always seemed to get in the way.

Don't delay. Retirement looms ever closer on the horizon and your opportunities to defer are dwindling. Under these circumstances, the old adage really is true...*He Who Hesitates Is Lost!* Call Kentucky Deferred Comp today (800.542.2667) to take that next step towards a brighter financial future.

How to Catch Up for Retirement

You may be looking ahead to days of leisure and relaxation in retirement. You may also be realizing that what you've saved and invested isn't as much as you may need for retirement. Fortunately, most public employees age 50 and over can use one of two ways to increase their deferrals for retirement.¹

You may use the 50-and-Over Catch-Up Provision. Thanks to the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), you can defer (per Plan) an extra \$2,000 above the maximum deferral limit in 2003 and an extra \$3,000 in 2004. This "extra limit" increases by \$1,000 each year through 2006 when it's \$5,000. The only qualifications are:

- You must be at least age 50 in the calendar year.
- You must first contribute the maximum regular annual deferral available each year you use this provision.

When you add this catch-up provision, you may be able to contribute as much to both plans as \$14,000 in 2003, \$16,000 in 2004, and so on.

You may use the Special Catch-Up Provision of Section 457 of the Internal Revenue Code to "catch-up" deferrals you were eligible to contribute in previous years, but did not.

The Code, as amended by EGTRRA, allows participants approaching retirement to defer as much as double the maximum limit in each of the three full years before the Normal Retirement Age into the 457 Plan. In 2003, you may be able to defer as much as \$24,000; in 2004, \$26,000.

The retirement age you select must be no earlier than the age at which you can retire and receive a benefit from your employer's retirement plan *without* reduction for early retirement purposes. The full regulations surrounding Normal Retirement Age are

contained in the Plan Document governing your employer's deferred compensation plan.

There are many variables that may impact how you may use the Special Catch-Up Provision. For these reasons, we encourage you to talk with a Kentucky Deferred Comp Representative – someone who is specially trained to guide you through the process.

In addition, these professionals (employed by Nationwide Retirement Solutions) can help you prepare a long-term plan and investment strategy that may assist you in meeting your in-retirement income goals.

To talk to one of our Representatives, call toll-free at 800.542.2667.

¹Participants may use one but not both catch-up provisions concurrently.

Go On A "Financial" Diet

Save Calories for Retirement

After the holidays, many of us resolve to lose weight and eat more healthy foods. If that's your New Year's resolution, you may also have found a new way to increase deferrals.

You can save perhaps a dollar a day by selecting a regular cup of coffee instead of a cappuccino, espresso or premium-name coffee. Brew it yourself at home and tack on another 50 cents of savings daily. That's \$1.50 a day, \$7.50 a week or \$375 a year you can save.¹

Cut a daily 75-cent doughnut to save \$3.75 a week, \$187 annually. Pass up a 50-cent bag of potato chips a day for another \$2.50 a week and \$125 each year. Drop a 65-cent cola from your daily diet and you've saved \$3.25 a week and \$162 for the year.

Altogether, that's a bit more than \$15 a week/\$30 per pay that could be put toward *your* retirement. And, remember all your deferrals are pre-tax (state and

Put Your Retirement Plan On A Diet

ADDITIONAL ANNUAL SAVINGS ¹	PER-PAY DEFERRAL INCREASE
\$187.00	\$7.19
\$125.00	\$4.81
\$162.00	\$6.23
\$375.00	\$14.42
TOTAL	TOTAL
\$849.00	\$32.65

federal), so the reduction in your take home pay will be less than the amount of your deferral.

Resolve today

Upping your deferrals by that extra \$30 per pay may well mean significantly more for your income at retirement. That's because any earnings have the opportunity to grow tax deferred over time. Of course, you will pay taxes on your investments and any earnings when you withdraw them, presumably during retirement when your income may be less.

So, by being a little more picky about your meals and snacks, you can save on calories AND defer more for retirement. While we at Kentucky Deferred Comp don't profess to be diet counselors, we do have ideas for more ways you may be able to increase your deferrals.

Log on to your Kentucky plan Web site at www.kentuckydcp.com or consult with one of our Participant Service Representatives by calling toll-free at 800.542.2667.

Examples are hypothetical and intended to project your actual savings, which may be impacted by personal habits, days off and food costs. Savings assume 5-day work weeks and 50-week work years. Deferrals assume bi-weekly (26 pays a year) pay schedule. In all cases, we rounded down to the nearest dollar.

¹Investing involves market risk, including possible loss of principal.

Fund Spotlight

For information only – NOT a recommendation for investment

Federated U.S. Government Securities Fund: 2-5 Years

Overall Morningstar Rating

★★★★★

Ranked number 3 out of 113 funds in the Short Government Category as of 9/30/02

Fund Description

The fund seeks to provide investors with current income. To pursue its objective, the fund invests in U.S. Treasury and government agency securities.

Reasons to Invest In This Fund

Provides the opportunity for higher total return than less volatile, short-term government funds.

Invests only in short-to-intermediate U.S. Treasury and government agency securities with an average duration of plus or minus 20% of the Merrill Lynch 3-5 Year Treasury Index

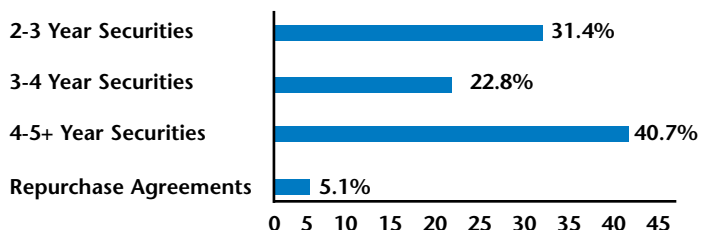
Nasdaq Symbol

FIGTX Institutional Shares

Fund Profile

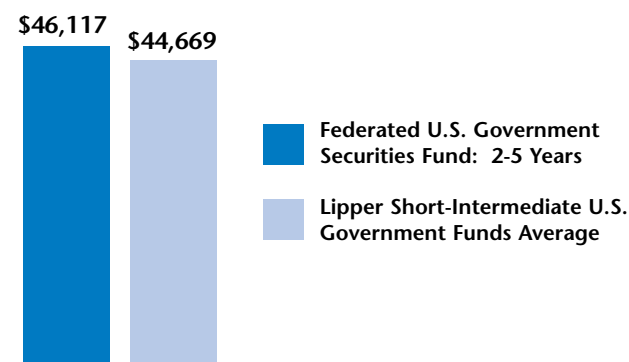
Seeks current income through a portfolio of U.S. government and federal agency securities maturing in five years or less. (Targets 2-5 year average maturity range).

Portfolio Composition (%)



Growth Over Time

If you had invested \$10,000 on the fund's inception date (2/18/83) and reinvested all distributions, here's how your account would have grown by 9/30/02, as compared to Lipper Funds Average.



Fund Management Team

Susan M. Nason, CFA
Robert J. Ostrowski, CFA

Fund Statistics

Total Assets (all share classes) \$811.7 million

Newspaper Listing Gov2-5I

Weighted Average Maturity 3.3 Years

Weighted Average Effective Duration 3.0 Years

Benchmark Merrill Lynch 3-5 Year Treasury Index

Morningstar Category Short Government